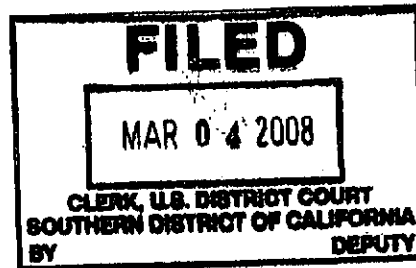


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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

TUÇO TRADING, LLC and
DOUGLAS G. FREDERICK,

Defendants.

Case No.: '08 CV U 4 00 DMS BLM

COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS

1 Plaintiff Securities and Exchange Commission ("Commission") alleges as follows:

2 SUMMARY

3 1. This case involves ongoing violations of the antifraud and broker-dealer
4 registration provisions of the federal securities laws by Tuco Trading, LLC ("Tuco"), an
5 unregistered Southern California securities day-trading firm, and its controlling principal,
6 Douglas G. Frederick ("Frederick" and collectively "Defendants").

7 2. Tuco and Frederick provide day-trading capability to over 250 day-traders. A
8 day-trader actively purchases and sells securities, often on the same day, and hopes to make at
9 least a small profit on a large number of buy-and-sell transactions. Tuco and Frederick allow
10 Tuco's members to day-trade through Tuco's own brokerage accounts ("master accounts"), by
11 creating "sub-accounts" for each trader. Tuco and Frederick then track the activity in each
12 trader's sub-account, including trades, balances, commissions, fees, deposits and withdrawals,
13 which Tuco reports to the trader on a daily basis. Tuco, however, is not registered as a broker or
14 dealer with the Commission, in violation of Section 15(a) of the Exchange Act, 15 U.S.C.
15 §78o(a)(1).

16 3. Tuco and Frederick entice traders with services unavailable to day-traders at any
17 registered broker-dealer. First, the Defendants allow a trader to day-trade even if his or her sub-
18 account has less than \$25,000 equity, which, under applicable National Association of Securities
19 Dealers ("NASD") regulations, is the minimum equity requirement to day-trade. Second, traders
20 at Tuco can use up to \$20 of Tuco's equity to purchase securities for each \$1 in the trader's sub-
21 account (*i.e.*, 20:1 buying power). Applicable NASD and New York Stock Exchange ("NYSE")
22 rules, however, only allow a day-trader to have 4:1 buying power.

23 4. Tuco and Frederick are also violating the antifraud provisions of Section 10(b) of
24 the Exchange Act and Rule 10b-5 thereunder, 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5. On
25 a daily basis, Tuco and Frederick report to the traders their purported equity balances in their
26 sub-accounts. As of December 31, 2007, however, Tuco and Frederick have used approximately
27 \$3.62 million of the traders' approximate \$10.2 million total equity to pay Tuco's expenses and
28 to cover trader losses. In reporting the traders' equity balances, however, Tuco and Frederick

1 have failed to disclose to Tuco's traders that their equity balances are overstated and that Tuco
2 and Frederick have misused approximately 35% of the traders' equity to pay Tuco's expenses
3 and to cover other traders' losses. Defendants' misuse of the traders' equity is continuous and
4 ongoing. As of January 31, 2008, Tuco and Frederick used approximately \$1.35 million of the
5 traders' approximate \$11.4 million total equity to pay Tuco's expenses and to cover trader losses.

6 5. The Defendants' conduct violates the antifraud and broker-dealer registration
7 provisions of the federal securities laws. By this action, the Commission seeks a temporary
8 restraining order, preliminary and permanent injunctive relief, an asset freeze, an accounting, an
9 order preventing the destruction of documents, the appointment of a receiver over Tuco,
10 disgorgement with prejudgment interest of the defendants' ill-gotten gains, and civil penalties.

11 THE DEFENDANTS

12 6. Tuco Trading, LLC, is a Nevada limited liability company formed in August 2006
13 and based in La Jolla, California. Tuco is a self-described "trading firm" that creates sub-
14 accounts for members to day-trade securities through Tuco's master brokerage accounts. Tuco is
15 not registered with the Commission as a broker or dealer.

16 7. Douglas G. Frederick, age 38, resides in San Diego, California. Frederick formed
17 Tuco in August 2006 and is its sole managing member. He has held various securities licenses,
18 including Series 6 and 7 since 1993 and Series 55 and 63 since 2002. Frederick has been
19 associated as a registered representative with thirteen broker-dealers since 1993, including GLB
20 Trading, Inc. since April 2006. Frederick is not registered with the Commission in any capacity.

21 RELATED NON-PARTY

22 8. GLB Trading, Inc. ("GLB Trading") has been registered with the Commission
23 since 2003 as a broker-dealer. It is an introducing broker-dealer based in Irvine, California, and
24 clears through Penson Financial Services, Inc. Tuco maintains its principal master accounts at
25 GLB Trading.

26 JURISDICTION AND VENUE

27 9. This Court has jurisdiction over this action pursuant to Sections 21(d)(1);
28 21(d)(1)(3)(A), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15